MALTA EMPLOYERS

Position Paper

The Views of the Malta Employers Association on the European Commission Communication on Islands and Coastal Communities

Executive Summary

The Malta Employers Association welcomes the European Commission Communication on Islands and Coastal Communities and supports its core objectives, particularly those aimed at enhancing competitiveness, resilience, sustainability, connectivity, and the strategic role of islands within the European Union.

While acknowledging that some islands have achieved strong economic performance, the Malta Employers stresses that EU policy should not differentiate between "thriving" and "lagging" regions. Instead, it should be grounded in the permanent structural disadvantages faced by islands, including insularity, peripherality, limited scale, and high dependence on external trade and connectivity. Malta, despite its economic growth, remains inherently vulnerable due to its reliance on international trade, maritime transport, and export-led activity.

The Malta Employers fully supports the EU's climate objectives and the Emission Trading System (ETS). However, it raises serious concerns about the unintended consequences of ETS on maritime transport. As a regional measure with limited extraterritorial enforceability, ETS is incentivising the re-routing of transhipment activities to non-EU ports, particularly in North Africa. This threatens Malta's role as a transhipment hub, undermining its connectivity, increasing costs, lengthening transit times, and exposing the economy to external dependencies.

Malta's connectivity is critically dependent on transhipment volumes handled through the Malta Freeport. Given the small size of its domestic market, direct calls by major shipping lines are only viable due to transhipment activity. Any diversion of this activity risks severe economic consequences, including higher freight costs, reduced reliability of supply chains, and diminished competitiveness for export-oriented industries. Additionally, the relocation of transhipment outside the EU weakens the Union's capacity in areas such as border control, security, and regulatory enforcement.

The document stresses that uniform application of EU legislation across structurally unequal territories produces inequitable outcomes. Equal treatment in legal design does not translate into fair outcomes in practice. In line with Articles 174 and 175 of the Treaty on the Functioning of the European Union, and Declaration 33, there is a clear obligation to address the permanent disadvantages of island territories, including island states as a whole.

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To address these challenges, the document calls for a shift from uniform to proportionate, geography-sensitive policymaking through the development of a comprehensive EU Islands Pact. This framework should systematically address connectivity, competitiveness, energy, climate, and resilience challenges faced by islands. Key recommendations include:

- Introducing an "Islands Clause" within the EU ETS framework to reflect structural connectivity constraints;
- Extending existing derogations to all islands, including island Member States at NUTS I level;
- Conducting cumulative impact assessments of EU climate and transport legislation on island economies;
- Adapting State Aid, competition, and Public Service Obligation frameworks to reflect structural dependencies;
- Providing targeted support for transport, energy, and digital infrastructure;
- Enhancing resilience instruments and statistical tools to better capture island-specific impacts.

In conclusion, island Member States face existential risks from the unintended consequences of current EU policies, particularly ETS. A recalibrated, proportionate approach towards EU-wide policies and regulations is required to safeguard just implementation in terms of their impact on islands' connectivity, competitiveness, and contribution to the European Union, while ensuring that climate objectives are achieved in a fair and balanced manner.

1. Context

Europe's islands and coastal communities occupy a distinctive position within the European Union. Island states like Malta, Cyprus, and Ireland face persistent logistical connectivity disadvantages, relying heavily on maritime and air transport with limited alternatives. High transport costs and fragmented trade make exporters and manufacturers uncompetitive within their own Single Market. Overreliance on services and diseconomies of scale hinder island states' diversification, leaving their economies narrow, fragile and exposed.

Small market scale compounds these pressures. Islands typically face limited natural resource endowments, elevated import dependency and insufficient domestic demand. Spatial constraints inevitably influence cost structures, investment feasibility and productivity outcomes.

The Malta Employers Association welcomes the Commission Communication and its objectives to:

1. strengthen economic competitiveness and attractiveness of EU islands as dynamic territories, encouraging innovation and smart specialisation, including in the blue economy, and improving connectivity within islands and with wider markets, both digitally and through transport links;
2. foster resilience and sustainability;

3. address structural demographic challenges and to encourage people to remain in their regions if so desired (right to stay);
4. support islands as strategic contributors to the EU's defence and security, including in the areas of energy and transport critical infrastructure, migration and border management, and threat detection and response capabilities.

The Commission notes that some islands have become thriving hubs at the forefront of economic development including tourism, while others continue to face challenges arising from insularity, including limited connectivity, economic vulnerability, structural demographic pressures and social constraints, which limit their capacity for sustainable growth and resilience.
The Malta Employers Association contends that policies should not discriminate between regions and islands that are thriving and others that are not. Policies should not be based on prevailing or historical economic performance but on permanent geographic disadvantages and perpetual vulnerability.
Malta's economy has performed strongly over recent years but remains permanently vulnerable because it is open and depends on international trade, export-led service activities and efficient global connectivity.

2. Climate Change, Energy Transition and EU ETS

Energy and environmental transitions intensify existing asymmetries. Island energy systems frequently operate with limited diversification options, constrained renewable deployment potential, and elevated generation costs. Climate and environmental legislation, including FuelEU Maritime, ReFuelEU Aviation, the EU Emissions Trading System (ETS), and sustainable fuel mandates, introduce compliance costs that disproportionately affect territories wholly reliant on global connectivity by air and by sea.

The Malta Employers Association fully supports the climate change objectives of the European Union and the principles behind the EU Emission Trading System. Malta, as an island, is particularly susceptible to the adverse consequences of climate change.

Nevertheless, in its current form, ETS as applied to maritime transport imposes serious risks on island Member States due to:

a) its regional nature, with limited enforceability outside EU jurisdiction;
b) strong incentives for re-routing transhipment away from EU territories;
c) expanded transhipment capacity along the North African coast capturing re-routed business.

These risks are existential. Malta depends on global maritime carriers, which may no longer call at Malta due to:

- the high ETS cost component; and
- the small domestic TEU volume relative to transhipment volumes.

Evidence shows ship re-routing to North African hubs. Malta has already lost connections such as:

- Asia to Adriatic routes now stopping in Alexandria instead of Malta;
- US to India services previously transhipping in Malta.

As cargo for Malta is discharged at nearby non-EU ports, Malta:

1. loses multiplier feeder activity; and
2. becomes dependent on non-EU ports for connectivity.

Given Malta's lack of raw materials, reduced connectivity undermines its competitiveness and export-led economic model.

3. Uniform Application of EU Law and its Limitations

The laws and regulations of the European Union must be applied uniformly. However, uniform rules applied to structurally unequal contexts produce inequitable outcomes. Treating different situations alike may appear neutral but generates disproportionate economic burdens.

Effective policy requires proportionality, context sensitivity and flexibility.

EU laws cannot be enforced outside EU territory. This limitation, combined with ETS, risks damaging the competitiveness of European transhipment hubs, contrary to EU policy objectives.

4. Structural Vulnerabilities of Island Member States

Island Member States face permanent structural disadvantages, including:

- no raw materials and reliance on imports;
- small domestic economies requiring export orientation;
- peripherality and physical isolation;
- limited economies of scale;
- constraints in skills availability and higher costs of water and energy.

Companies in small island states must import raw materials and export finished goods, making them dependent on efficient sea connections.

Mainland operators do not face these disadvantages. These are permanent geographic constraints beyond the control of island Member States.

5. The Role of Transhipment in Competitiveness and Resilience

Malta has developed extensive global connectivity through transhipment, linking to over 110–160 ports worldwide via major global carriers. This connectivity provides competitive transit times and freight rates, supporting European supply chains.

The Malta Freeport handles approximately 3 million TEUs annually, of which only about 134,000 TEUs are domestic. This small domestic volume does not justify direct calls by mega-carriers without transhipment activity.

Transhipment provides:

- efficient global connectivity;
- reduced transit times (e.g., 15–20 days from the Far East);
- cost savings for industry.

If transhipment shifts to non-EU ports:

- freight costs may increase by 20–25%;
- transit times may lengthen by 8–10 days;
- services may become irregular and unpredictable.

This would significantly undermine Malta's economic resilience as well as its competitiveness in terms of its manufacturing industry its continued contribution to the European supply chain.

5.1 Contribution to European Security

Transhipment in Malta also contributes to EU security by enabling border control, inspections, and enforcement. If activity shifts outside the EU, this role will be considerably diminished.

6. Legal and Policy Framework

These challenges align with Articles 174 and 175 of the Treaty on the Functioning of the European Union. Article 174 recognises regions facing permanent natural or demographic handicaps, including islands. Declaration 33, in particular, clarifies that island regions may include island states in their entirety.
Legislative recognition must extend beyond cohesion instruments, as structural market failures require targeted regulatory responses.

Equality and equity are not interchangeable. Uniform regulation must be replaced with proportionate, geography-sensitive policies embedded across climate, energy and transport legislation.

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7. Recommendations

A comprehensive EU Islands Pact is required to address connectivity, competitiveness, energy, climate, mobility, and sustainability challenges, ensuring accountability and implementation of concrete measures.

- Introduce an "Islands Clause" within the EU ETS framework to reflect structural connectivity constraints;
- Extend existing derogations to all islands, including island Member States at NUTS I level;
- Conduct cumulative impact assessments of EU climate and transport legislation on island economies;
- Adapt State Aid, competition, and Public Service Obligation frameworks to reflect structural dependencies;
- Provide targeted support for transport, energy, and digital infrastructure;
- Enhance resilience instruments and statistical tools to better capture island-specific impacts.

8. Conclusion

Island economies, including Malta, are highly vulnerable to relocation of economic activity due to loss of connectivity. Evidence of shipping route reconfiguration due to EU ETS is already emerging.

Loss of connectivity threatens manufacturing, trade, and the broader socio-economic fabric of island Member States.

A strong case exists for revising EU ETS to extend island derogations to all islands, including island Member States at NUTS I level, recognising that all islands face the same permanent geographical disadvantages and that island states lack alternative national support mechanisms.
A shift from uniform regulation to proportionate, geography-sensitive policy is essential to ensure fairness, competitiveness, and cohesion within the European Union.

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